

GENERAL FUND REVENUE ESTIMATES

Overview

For 2006-2007, Adopted General Fund revenue estimates (excluding fund balance) total \$759.4 million, representing an 11.2% increase from the 2005-2006 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total \$934.3 million, which is approximately 14.1% above the prior year level.

Initial estimates for the 2006-2007 beginning fund balance and for over 400 separate General Fund revenue accounts were formulated initially in an October Forecast, and updated as part of the 2007-2011 Five-Year Forecast released in February 2006. These estimates have since been reviewed and revised as appropriate based on additional information that became available since the release of the Forecast.

Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in the current year (2005-2006) based on year-to-date activity; and an estimate for the increase or decrease in activity and receipts anticipated for the coming fiscal year (2006-2007). Each source of revenue is influenced by different factors, which are both external (outside of the City's control) and internal.

General Fund revenue estimates for 2006-2007 are summarized below and discussed in detail in the material that follows.

Revenue Category	1 2004-2005 Actuals	2 2005-2006 Adopted	3 2006-2007 Forecast	4 2006-2007 Adopted	2 to 4 % Change	% of Total
Property Tax	144,048,051	143,996,000	183,914,000	183,914,000	27.7%	19.7%
Sales Tax	133,113,434	135,243,000	144,008,000	144,008,000	6.5%	15.4%
Transient Occupancy Tax	6,408,705	6,450,000	7,600,000	7,600,000	17.8%	0.8%
Franchise Fees	33,721,621	33,138,000	36,404,000	36,904,000	11.4%	3.9%
Utility Taxes	73,081,154	67,844,000	76,098,000	76,098,000	12.2%	8.1%
Licenses and Permits	73,151,312	72,269,830	64,541,135	74,660,399	3.3%	8.0%
Fines and Forfeitures	13,369,693	12,695,000	12,355,000	12,536,567	(1.2%)	1.3%
Rev. from Money and Property	7,946,442	6,217,454	10,483,734	10,541,869	69.6%	1.1%
Rev. from Local Agencies	45,056,020	41,928,346	45,095,308	45,422,621	8.3%	4.9%
Rev. from State Government	13,467,122	10,892,192	9,268,710	10,274,423	(5.7%)	1.1%
Rev. from Federal Government	2,592,764	9,854,456	1,533,307	16,469,051	67.1%	1.8%
Departmental Charges	28,093,767	27,366,083	27,780,877	29,455,625	7.6%	3.2%
Other Revenue	18,379,864	19,562,861	10,922,291	15,522,457	(20.7%)	1.7%
Transfers and Reimbursements	89,598,689	95,321,831	81,915,474	96,008,271	0.7%	10.3%
Subtotal	682,028,638	682,779,053	711,919,836	759,415,283	11.2%	81.3%
Fund Balance-Carryover*	153,454,304	135,755,578	57,200,000	174,896,871	28.8%	18.7%
Total General Fund Sources	835,482,942	818,534,631	769,119,836	934,312,154	14.1%	100.0%

* The Fund Balance figure does not include the Reserve for Encumbrances.

Overview (Cont'd.)

A Return to Modest Economic Growth

As is the case every year, the most significant challenge the Administration faces in formulating a budget for the coming year is projecting the condition of the local economy and the associated level of revenue collections. Monitoring of revenue collections throughout the year has confirmed the general accuracy of the key assumptions used to build the 2005-2006 Adopted Budget – (1) that the severe downturn experienced over the last four years had bottomed out, (2) that the local economy would once again begin to experience modest economic growth, and (3) there was little to no chance for a resumption of the high levels of growth experienced in the four years proceeding the severe crash of 2001-2002 anytime in the foreseeable future. As a result, General Fund revenue collections, particularly in our economically sensitive categories are all running at or above budgeted levels.

As for the projections included in the 2006-2007 Adopted Budget, those estimates have been built on the overall assumption of a continuation of the current modest growth levels at the national, State and local levels for the full fiscal year. What follows is a brief discussion of expectations concerning the economy at each of those levels, along with some cautionary notes regarding threats to this forecast that will need to be monitored carefully during the year.

At the National and State level, the consensus of most forecasters is for continued growth, although at a lower rate than experienced over the previous 12 months. The chief concern is the potential level of drag on the economy that will result from three factors: spiking oil prices; a

slowing housing market; and the past and continuing rise in interest rates engineered by the Federal Reserve Board.

Consumer spending is 70% of the national economy, and is the single biggest reason the last recession wasn't worse than it was. We are, however, worried about the sustainability of the current rates of consumer spending in light of both the rise of energy costs, which are taking increasing amounts of dollars out of consumers pockets, and the cooling housing market. Many economists attribute the unexpectedly high levels of consumer spending during the recent economic slowdown in part to direct home-equity borrowing and to the "wealth effect" – people's tendency to spend more when they are confident their assets are appreciating. Over the last few years a lot of equity has been borrowed out of homes to help fuel the high levels of consumer spending. But with the definite signs nationwide of a slowing housing market, related in part to rising interest rates, there is increasing concern about the potential impact on consumer confidence and resulting spending levels. At least one expert, Joseph Stiglitz, professor at Columbia University and winner of the 2001 Nobel Prize in economics, describes this school of thought unequivocally: "We've been sustaining consumption by taking money out of housing. As the housing market slows, we will not be able to maintain the increases in consumption that we need to sustain growth at 3% or 4% a year."

A more draconian concern, particularly for this area, is the risk of a more precipitous fall in housing prices. There is a fear among a significant number of economists, most notably the UCLA Anderson School economists, that five straight years of record home sales, fueled by the lowest mortgage

Overview (Cont'd.)

A Return to Modest Economic Growth (Cont'd.)

rates in recent history, created a speculative fever in housing similar to the forces that resulted in the bubble in stock prices in the late 1990's that later crashed. A crash in home prices is, therefore, seen as one of the biggest threats to economic growth. This risk is greatest in the hottest sales markets in areas such as California, Nevada, and Arizona, where a larger percentage of sales activity has been driven by speculative investors who might start dumping houses back on the market.

As for expectations for the Local economy, we are encouraged that the devastating drop in revenue suffered in recent years appears to have stabilized, and modest growth in our economically sensitive revenues has resumed, and appears increasingly sustainable. We still have no signs to indicate, however, that the levels of growth will exceed the current modest levels for at least the next several years.

Two key economically related revenues are leading the growth resumption. Property Taxes, in particular, have exceeded expectations for the last several years due to the strength of the local real estate market. Collections have sustained higher levels of growth for longer than expected and are exceeding expectations in 2005-2006. As Property Taxes for 2006-2007 are based on calendar year 2005 tax rolls, the City is likely to see at least one more year of solid growth in this area even as local housing growth slows. Our estimates for the 2006-2007 Adopted Budget for Property Taxes reflect that expectation. Following four years of

abysmal performance, General Sales Tax receipts, our second largest General Fund source, are now also experiencing steady strength, with nine straight quarters of overall growth. Sales Tax growth has, however, been much more unpredictable, with strong quarters followed by quarters where growth was virtually nonexistent. In the most recent two quarters, for example, growth of 14.5% in the first quarter of the year was followed by a second quarter where growth of just 2.3% was experienced. Our expectations for next year are for modest growth in this our second largest General Fund revenue source, with a growth rate of 3%.

It has been our consistent belief, however, repeated since the beginning of the economic downturn, that the most reliable predictor of local economic improvement is the jobs picture. Although the local employment situation has stabilized, and there are even some signs of very slight increases, there are still no signs of a rebound of any significance. The very slight growth experienced over the last several months has resulted in almost no progress towards recovering the 200,000 plus jobs lost in this area during the recession.

In regards to the employment picture, unfortunately, we still seem to be living a story of two separate economies, the national/State economy, where more than two million jobs have been created at the national level, and over 190,000 jobs created at the State level, and the local economy, where job growth continues to be almost non-existent. Local March employment data, the most recent data available at the time this document was formulated, confirms the situation as basically unchanged. The Valley gained 3,800 jobs between February 2006 and March 2006 after losing 13,600 jobs between December 2005 and January 2006.

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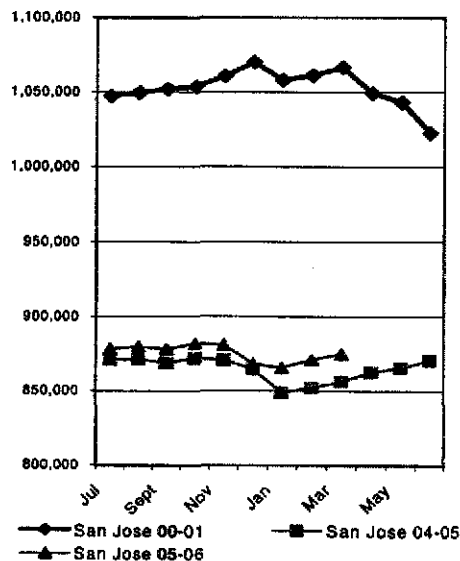
Overview (Cont'd.)

A Return to Modest Economic Growth (Cont'd.)

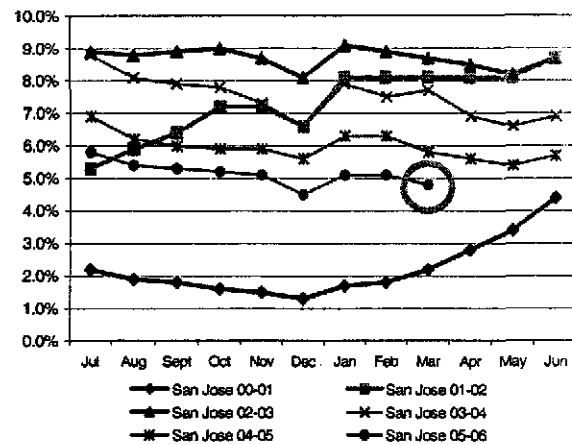
Year over year employment for the period of March 2005 to March 2006 saw an anemic increase in overall jobs of just 6,800 or 0.8%.

By contrast, the unemployment rate in Silicon Valley was 4.8% in March 2006, only slightly below the levels of 5.0% for the State and 4.8% for the nation during the same period. This relatively low unemployment rate, however, appears to mostly reflect a reduction in the number of job seekers, rather than a real improvement in the employment situation.

San José Metropolitan Statistical Area
(Santa Clara County)
Total Wage and Salary Jobs Comparison



San José Metropolitan Statistical Area
(Santa Clara County)
Unemployment Rate Comparison



Clearly, although the local job market has stopped shedding jobs, the question remains as to whether and when significant growth will occur.

Until a trend for more vigorous growth in jobs begins to become apparent, we continue to believe that a presumption for very modest growth levels in the local economy and in local revenues is the prudent and appropriate choice. As a result, that is the overall presumption underlying the estimates explained in detail in the material that follows.

2006-2007 General Fund Revenue

As noted above, for 2006-2007, the key underlying assumption for the economically sensitive General Fund revenues is one of cautious optimism for the local economy, but with relatively modest expectations.

When analyzing the City's General Fund revenues, however, it is important to remember that only approximately half of the categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance,

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Overview (Cont'd.)

2006-2007 General Fund Revenue (Cont'd.)

are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they can act as a buffer during an economic slowdown, easing the impact of a drop in the economically sensitive categories. Conversely, in times of economic strength they can hold down the City's overall revenue growth.

Revised General Fund Forecast

After the issuance of our February Forecast, we have continued to review and update our estimated revenue collections for next year. A number of the revenue estimates presented in the February Forecast are, therefore, revised in the Adopted Budget to reflect the latest information available. The net result of these revisions is an upward adjustment of \$2.2 million to the Forecast total, from \$766.9 million to \$769.1 million. Key revisions include:

- The Property Tax estimate was increased by \$1.5 million to reflect higher expectations for Secured Property Tax revenue collections based on updated information from the County.
- The Transient Occupancy Tax estimate was increased by \$100,000 based on the performance of the first three quarters of 2005-2006. Collections are tracking

higher than originally anticipated, resulting in a slightly higher base for the growth expected in 2006-2007.

- The Franchise Fees category estimate has been decreased by \$240,000, mainly to reflect lower revenue estimates for Gas and Electric Franchise Fees (\$370,000), partially offset by an increase (\$130,000) in Cable Television Franchise Fees to reflect changed expectations for 2005-2006 year-end estimates based on year-to-date collections.
- The Utility Tax category estimate was decreased by \$338,000, reflecting reduced expectations for Electric Utility Tax revenue collections in 2005-2006.
- The Licenses and Permits estimate was increased by \$147,000 to reflect revenue expected to be generated from the new fee for Off-Sale Alcohol Enforcement (\$148,000) slightly offset by a reduction in the Cardroom Administration/Table Fee estimate.
- The Use of Money and Property estimate was decreased by \$5,000 to reflect changed expectations for interest income from Senior Staff Home Loans.
- The Revenue from Local Agencies estimate was increased by \$717,000 to reflect updates to the estimates for reimbursements from the Redevelopment Agency.
- The revenue from the State of California estimate was increased by \$200,000 to reflect a revised expectation for revenue from Highway Maintenance charges.

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Revised General Fund Forecast (Cont'd.)

- The Revenue from the Federal Government estimate was increased by \$150,000 to reflect expected funding from the California Department of Education for the California 21st Century Community Learning Centers Program.
- The Departmental Charges category estimate was increased by \$308,000 to reflect inclusion of the General Plan Update Fee (\$200,000), and reflect updates to Transportation fees and charges activity estimates (\$108,000).
- The Other Revenue estimate was decreased by \$130,000 to reflect an updated calculation of Investment Cost Reimbursements.
- Due primarily to offsetting technical adjustments, the Transfers and Reimbursements category was decreased by a net total of \$224,000. The Transfer from the Emergency Communication System Support Fee Fund was increased by \$343,000 to reflect updates to the calculation that determined the amount of eligible costs that could be reimbursed. Transfers from the Special Assessment Funds were adjusted upward by \$150,000 to reflect reimbursements for services, and upward adjustments in transfers from the Parks Yard Construction and Conveyance Tax Fund (\$49,000) and transfers from the Development Enhancement Fund (\$36,000) were also included. These increases were more than offset by a decrease in the estimate for transfers from the Storm Sewer Operating

Fund (\$228,000), overhead charges (\$548,000) primarily as a result of changes in labor cost estimates, and reduced costs for Police and Fire reimbursements from the Airport (\$26,000). It is important to note that overhead rate estimates in the Adopted Budget have been developed by applying 2005-2006 overhead rates to appropriate labor costs. 2006-2007 updated overhead rates, scheduled to be released from the Finance Department in March, have been delayed and were not available at the time this document went to print. Once the new rates are made available, any changes in overhead revenue estimates that result, along with recommendations for adjustments to the budget necessitated by these changes, will be brought forward for Council review.

These changes from the February Forecast were incorporated into the revised Forecast as summarized in the following chart, and represented a net increase of approximately \$2.2 million:

<u>Category</u>	<u>Adjustment</u>
Property Tax	\$ 1,500,000
Transient Occupancy Tax	100,000
Franchise Fees	(240,000)
Utility Tax	(338,000)
Licenses and Permits	146,735
Use of Money and property	(4,920)
Rev. from Local Agencies	716,990
Rev. from State of California	200,000
Rev. from Federal Government	150,000
Departmental Charges	307,885
Other Revenue	(129,511)
<u>Transfers & Reimbursements</u>	<u>(223,965)</u>
Total	\$ 2,185,214

Overview (Cont'd.)

Changes from Forecast to Adopted Budget

From the Revised Forecast of \$769.1 million, additional resources totaling \$165.2 million were approved, resulting in an Adopted Budget revenue estimate total of \$934.3 million. The components of the \$165.2 million increase can be detailed as follows: an increase in the estimate for the 2005-2006 Ending Fund Balance/2006-2007 Beginning Fund Balance (\$117.7 million); revenue-related rebudgets from 2005-2006 (\$13.6 million); and higher revenue estimates (\$33.9 million) discussed in detail in the following pages.

The largest portion of the increase (\$89.6 million) to the fund balance was generated from expenditure related rebudgets from 2005-2006 to 2006-2007. The higher fund balance also reflects an increase in expectations for revenue overages and expenditure savings in 2005-2006 (\$6.1 million); an increase in the estimate for liquidated encumbrances (\$138,000); and the liquidation of 2005-2006 reserves (\$21.8 million), including the 2006-2007 Future Deficit Reserve (\$18.4 million), the use of the E-Government Applications Reserve (\$1.3 million), and the use of development related fee reserves (\$2.1 million).

Upward adjustments to revenues totaling \$33.9 million were approved as part of the Adopted Budget. By far the largest approved revenue adjustment is, of course, the extension of the Emergency Communication System Support Fee to June 30, 2009 from the prior sunset date of December 31, 2006. The extension of this fee for the full fiscal year, the cornerstone of the Administration's General Fund budget balancing strategy, generates an additional \$10.4 million in 2006-2007 for a half year of the fee, and \$20.6 million

ongoing. Another significant change is the inclusion of the Cardroom Business Tax estimate (\$9.5 million) that had been previously treated by Council direction as a one-time revenue source for budgeting purposes and, therefore, not included in the Base Budget Forecast. As approved by the City Council as part of its review and approval of the Mayor's March Budget Message, this revenue has now been added into the budget as part of the balancing strategy, and is treated as an ongoing revenue source.

Also included in the budget strategy is a total increase in transfers from other funds of \$3.4 million (explained in more detail below), a \$4.2 million Urban Area Security Initiative Grant, a \$1.8 million adjustment to FMC Debt Service Reimbursements from the Airport, and a series of smaller adjustments to reimbursement amounts to fund a variety of local and State grant programs as well as changes to fee programs and reimbursements from other funds and agencies to support specific augmentations. These items are described in more detail throughout this section of the document.

In general, revenue estimates included in the Adopted Budget are intended to be as exact as possible. The level of certainty of any revenue projection, particularly when made this far in advance of the actual collection period is, however, obviously less than 100%. As a rule, therefore, where great uncertainty exists concerning any particular revenue source, a degree of safety has been built into the estimate. As always, the 2006-2007 revenue estimates will need to be monitored closely throughout the year.

Following is a discussion by revenue category of the anticipated performance for 2006-2007. See the *General Fund Revenue Descriptions* at the end of this section for a description of selected General Fund revenue sources.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

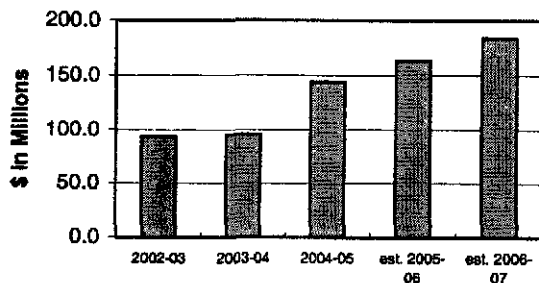
2004-2005 Actual	\$144,048,051
2005-2006 Adopted	\$143,996,000
2006-2007 Forecast*	\$183,914,000
2006-2007 Adopted	\$183,914,000
Percent of General Fund	19.7%
% Change from 2005-2006 Adopted	27.7%

* Revised upward by \$1.5 million from the February Forecast, reflecting a change in the growth rate assumption for Secured Property Taxes from 8% to 9%.

Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale)
- Homeowner's Property Tax Relief Exemption

Collection Trend:



Revenue Estimates:

In 2006-2007, the projected Property Tax growth of almost 28% from the 2005-2006 Adopted Budget is the result of three factors: 1) strong Property Tax performance in 2005-2006 that is expected to continue into 2006-2007; 2) a one-time adjustment associated with the restoration of Property Tax that had

been allocated to the State for the past two years; and 3) adjustments associated with the Motor Vehicle In-Lieu (VLF) "Swap".

Even during the Valley's economic slowdown over the last few years, City Property Tax collections have surprisingly sustained relatively healthy and steady growth, primarily driven by a continued high volume of property turnovers and increases in home prices. In the recession of the early 1990s, many property owners filed assessment appeals because the market values of properties were less than the assessed values. During the mid-1990s, these values were restored as market conditions improved. With the robust housing market, the recent economic downturn has not produced the same results.

At the end of calendar year 2005, however, the local housing market started to show signs of slowing. Rising interest rates and extremely high home prices have begun to cool off the housing market. After sales of both new and existing homes set records during the past five-years, analysts are expecting a drop in sales this year. As noted in the City's Five-Year Forecast, the current outlook calls for a modest drop in home prices, a moderate decrease in sales and new buildings, and weak growth for the next several years.

GENERAL FUND REVENUE ESTIMATES

Property Tax (Cont'd.)

On the positive side, 2006-2007 Property Tax collections are based on the calendar year 2005 County Tax Rolls which still indicate solid growth and should provide at least one more year of healthy revenue collections. As the housing market slows, however, we should eventually see a drop in real estate prices and an associated increase in the number of downward assessments either proactively performed by the County Assessor or the number of appeals filed independently by property owners.

As mentioned in the last two budgets and in the Monthly Financial Reports (MFR), Property Tax receipts were reduced in 2004-2005 and in 2005-2006 by \$11.1 million each year as part of State budget balancing actions. Part of the projected increase in Property Tax collections in 2006-2007 is the result of the end of this \$11.1 million shift to the State.

An additional component of the projected increase in Property Tax Collections, as mentioned in past MFRs and in the Mid-Year Budget Review, is related to the implementation of the State VLF "Swap". The "Swap" involved the permanent conversion of VLF backfill funds to Property Tax as part of an approved State budget balancing strategy in 2004-2005. Because of the ongoing nature of this change, the compensating State revenue is now treated as Property Tax in this and future years. Recent disbursements received from the State appear to indicate that the "Swap" and its accompanying 2004-2005 "true-up" to actual VLF receipts have resulted in much higher than anticipated Property Tax receipts; the total exceeding estimates by approximately \$10.2 million in 2005-2006. A side benefit of these increases was an increase in SB813 Property Tax resulting in an additional \$1.4 million in revenue as explained more fully below.

After taking these factors into consideration, the 2006-2007 Adopted Budget revenue estimates for Property Tax (\$183.9 million) actually project an approximately 12.5% overall increase in Property Tax levels over the 2005-2006 year-end estimate (\$163.5 million). By far the largest part of this estimated increase (9.0%) is driven by expected growth in Secured Property Tax, offset by declines in Unsecured Property Tax and SB 813 receipts, with the remaining increase resulting from the restoration of \$11.1 million from the State.

The following section briefly describes the general assumptions used to develop Property Tax revenue estimates by major category.

Secured Property Tax

Approximately 90% of the City's Property Tax revenue is generated from Current Secured Property Taxes. The schedule utilized by the County Assessor for these taxes is based on the value of property assessed on January 1, 2006 and is for the period of July 1, 2006 through June 30, 2007.

Based on preliminary information from the County, it is estimated that the Current Secured Property Tax growth rate for 2006-2007 is expected to grow at a slightly slower rate than experienced in 2005-2006. As mentioned above, the housing market has started to cool. Although the main impact of this slowdown is not expected to start showing up in the tax rolls until 2007-2008, county information indicates that roll growth will be lower than the 10.5% experienced in 2005-2006. As a result, this budget forecasts a 9.0% increase in this category for 2006-2007, reflecting a slight increase over the 8.0% increase used in the initial Forecast, and an upward adjustment to the Forecast revenue estimate of \$1.5 million, bringing total receipts to \$167.8 million. As mentioned above, this estimate also includes the impact of the end of the \$11.1 million contribution to the State.

Property Tax (Cont'd.)

Unsecured Property Tax

The second largest revenue source in this category is Current and Prior Unsecured Property Taxes. Growth in this area is driven by increases in the value of personal property, typically equipment and machinery used by business and industry for manufacturing and production. Over the last decade, performance in this category has been extremely volatile, with annual growth or declines reaching double-digit levels based primarily on the strength of the local business sector. Collections in this category have been going down in recent years as a result of the economic downturn.

A decline of 3.9% is expected by 2005-2006 year-end, with collections expected to fall to \$10.4 million. While Unsecured Property Tax collections are expected to start leveling off, the Adopted Operating Budget estimate of \$10.2 million assumes another decrease (2.0%) in Unsecured Property Tax collections from anticipated 2005-2006 year-end receipts.

This is a significantly lower drop than that anticipated for 2005-2006 (down 3.9%), 2004-2005 (down 11.2%), and 2003-2004 (down 13.9%), and a large change from the healthy growth experienced in the boom years: 2001-2002 (26.6%), 2000-2001 (13.0%), 1999-2000 (2.8%), 1998-1999 (8.3%), 1997-1998 (15.0%) and 1996-1997 (12.1%).

The projected 2006-2007 decline of 2.0% in Unsecured Property Tax reflects the impact of the slowness of the recovery being experienced by businesses in the valley. It should be noted, however, that this estimate does assume that the County Assessor will not be taking any preemptory actions to change the depreciation schedules used to value

major business equipment items. Due to the volatility in collections for the past several years, this revenue source will require continued close monitoring in 2006-2007.

SB 813 Property Tax (Property Resales)

The SB 813 Property Tax component represents the retroactive collection of taxation on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. It is estimated that collections in 2006-2007 will total \$4.8 million, a decline from the anticipated 2005-2006 year-end level of \$6.0 million. Next year's estimate assumes a moderate decline in property turnovers due to rising interest rates and the impact of the cooling housing market, which is expected to produce a leveling off, or even a slight decline, in home prices from the current all time high levels.

As mentioned previously, this strong level of collection in 2005-2006 is due, in part, to the conversion of VLF to Property Tax. This VLF "Swap" has increased the ratio of the City's allocated share of SB813 Property Taxes. Should the State decide that this was an unintended consequence of the VLF "Swap" action and take steps to bring this revenue source into alignment with the net zero intentions of the VLF "Swap" legislation, we could realize less than the current 2006-2007 estimate.

Homeowner's Exemption

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household exemption granted by current State law. Collections of \$1.1 million are anticipated in 2005-2006. Revenues in this category are expected to remain flat in 2006-2007.

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SALES TAX

2004-2005 Actual	\$133,113,434
2005-2006 Adopted	\$135,243,000
2006-2007 Forecast	\$144,008,000
2006-2007 Adopted	\$144,008,000
Percent of General Fund	15.4%
% Change from 2005-2006 Adopted	6.5%

Major Categories:

- General Sales Tax
- Public Safety (Proposition 172) Sales Tax

Distribution of Sales Tax:

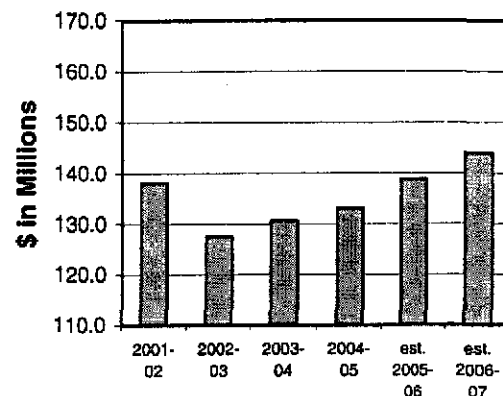
As shown below, the City receives 1.0% of the 8.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected statewide.

Agency	<u>Distribution Percentage</u>
State of California	5.50%
City of San José	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	<u>0.50%</u>
Total Sales Tax	8.25%

Starting in 2004-2005, the City was impacted by the State action known as the "Triple Flip", which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 0.25% of the City's one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax

revenue (Primarily ERAF). This action, which went into effect on July 1, 2004, is to last only for the life of the bonds (currently estimated at five to ten years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts is tied to sales tax and because this action is considered a temporary property tax in lieu of sales tax.

Collection Trend:



Revenue Estimates:

General Sales Tax

From the middle 1990s through 2000-2001, the City enjoyed very strong growth in Sales Tax collections, reflecting exceptionally favorable economic conditions within Silicon Valley as well as both State and nation-wide.

GENERAL FUND REVENUE ESTIMATES

Sales Tax (Cont'd.)

General Sales Tax (Cont'd.)

Economic conditions changed dramatically following the peak in 2000-2001. With the precipitous decline in the local economy, the Sales Tax category, along with several other economically sensitive revenue sources (e.g., Transient Occupancy Tax, development-related fees, Construction and Conveyance Tax, etc.), suffered a steep decline in collections that lasted several years.

In recent years, Sales Tax collections have shown some improvement, with growth experienced for the past nine straight quarters. The quarterly growth rates have varied significantly, however, ranging from very weak (0.04%) to relatively strong (14.5%).

When the 2006-2007 budget was developed, we had received two quarters of Sales Tax receipts. The first quarter of 2005-2006 was up a surprising 14.5%. However, as explained in prior MFRs, information from our Sales Tax consultants indicated that a significant portion of this increase was actually the result of an error at the State Board of Equalization (SBE) that caused some sales tax returns that should have been processed in the previous quarter to be processed in this quarter instead. Taking this adjustment into account, along with adjustments for other one-time transactions, our consultants calculate that the first quarter Sales Tax receipts represented positive growth approximating 8.1% on an economic basis. While this performance is encouraging, the analysis by our tax consultants also indicated that a large part of the increase was due to one-time incentives for auto sales and the spike in gas prices, as well as higher than anticipated construction activity during that quarter. Sales Tax receipts for the second quarter of 2005-2006 increased by just 2.3%. This increase is consistent with the Sales Tax rate forecasted by the city's Sales

Tax consultants, MBIA MuniServices, who believe that a reasonable expectation for Sales Tax receipts for the remaining two quarters of the year would be growth in the range of 2.0% to 3.0%. When combined with the first two quarters of actual receipts, overall growth of 5.0% was projected for 2005-2006.

The 2006-2007 General Sales Tax estimate of \$139.6 million assumes growth of 3.0% over the 2005-2006 estimated collection level, reflecting a presumed impact of the softening housing market on consumer spending, offset somewhat by modest improvements in business-to-business Sales Tax collections.

The volatility in the City's collection experience for the past several years makes forecasting the General Sales Tax category a challenging task. Consistent with past years, therefore, Sales Tax Collections will be carefully monitored during the year and the status reported to the City Council through the Monthly Financial Report.

Public Safety (Proposition 172) Sales Tax

The Public Safety (Proposition 172) Sales Tax is a ½-cent sales tax collected by the State and distributed to counties and cities. The City of San José receives a percentage of this allocation. The 2006-2007 Adopted Budget estimate for Proposition 172 Sales Tax of \$4.4 million assumes approximately 2% growth from the estimated 2005-2006 year-end collection levels of \$4.3 million.

Collections in this category are based on both the actual State-wide sales tax receipts and the relative sales tax performance of Santa Clara County to the State. In the past, Santa Clara County has outperformed the State in sales tax receipts and, thus, has received a growing

GENERAL FUND REVENUE ESTIMATES

Sales Tax (Cont'd.)

Public Safety (Proposition 172) Sales Tax (Cont'd.)

portion of the Proposition 172 Sales Tax revenues. This has not been the case in recent

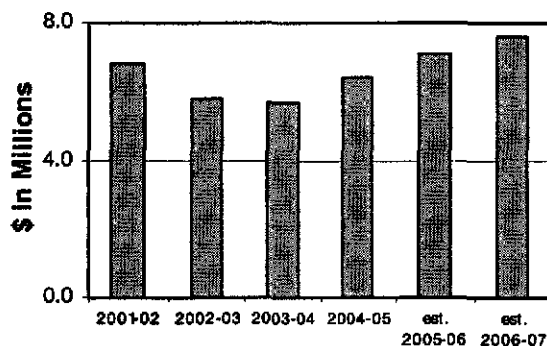
years as Silicon Valley was disproportionately impacted by the economic downturn in the early part of this decade. Modest growth in this category is expected to resume with the improved sales tax performance in this region and overall growth for the State.

TRANSIENT OCCUPANCY TAX

2004-2005 Actual	\$6,408,705
2005-2006 Adopted	\$6,450,000
2006-2007 Forecast*	\$7,600,000
2006-2007 Adopted	\$7,600,000
Percent of General Fund	0.8%
% Change from 2005-2006 Adopted	17.8%

* Revised upward by \$100,000 from the February Forecast, reflecting a slight change in the approximate annualized growth for Transient Occupancy Taxes.

Collection Trend:



Revenue Estimates:

The 2006-2007 Adopted Budget estimate of \$7.6 million for the General Fund's (4.0%) share of the Transient Occupancy Tax assumes growth of 7.0% in revenues over a 2005-2006 year-end estimate of \$7.1 million.

Growth in this category had been extremely strong prior to 2001-2002. That year, however, saw the beginning of a precipitous decline that continued thorough the end of 2003-2004, as the result of the combined impact of the general deterioration in economic conditions along with the aftermath of September 11. The downward slide included a 14.9% decline in 2002-2003 collections with a further decline (1.5%) in 2003-2004. This fall-off was a significant departure from the experience of the mid to late 1990 years. With the exception of a moderate increase of slightly over 4.0% in 1998-1999, growth in this category ranged from 13.0% to 21.0% between 1993-1994 through 2000-2001.

In 2004-2005, this category did start to experience growth again, with an increase of 12.8% over 2003-2004 levels. This growth trend is expected to continue with an increase of approximately 14% projected in 2005-2006.

GENERAL FUND REVENUE ESTIMATES

Transient Occupancy Tax (Cont'd.)

The number of available rooms is expected to remain relatively unchanged, with slight increases in room rates. In addition, the increase in occupancy rates that has driven most of the recent increases in Transient Occupancy Tax collections is expected to start

leveling off as economic growth remains modest. Based on the above, the Adopted Budget assumes a 7.0% growth over the currently estimated 2005-2006 receipts. Due mainly to projected higher receipts in 2005-2006, the current 2006-2007 Forecast estimate is \$100,000 higher than the February Forecast base revenue estimate.

FRANCHISE FEES

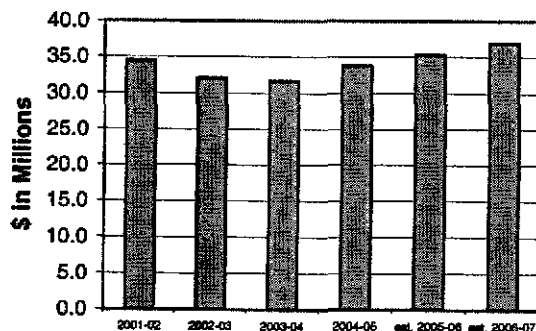
2004-2005 Actual	\$33,721,621
2005-2006 Adopted	\$33,138,000
2006-2007 Forecast*	\$36,404,000
2006-2007 Adopted	\$36,904,000
Percent of General Fund	3.9%
% Change from 2005-2006 Adopted	11.4%

* Revised downward by \$240,000 from the February Forecast, reflecting slightly revised projections for Gas, Electric, and Cable Television Franchise Fees.

Major Categories:

- Electricity, Gas and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

Collection Trend:



Revenue Estimates:

Electricity, Gas, and Water Utility Services

The 2005-2006 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) are based upon the proceeds of that company in the calendar year 2005. Final accounting for the preceding calendar year takes place in late April of each year.

The 2006-2007 Adopted Budget estimate for both the Electricity and Gas Franchise Fees is based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts.

The 2006-2007 projection for collections in the Electricity and Gas Franchise Fee categories will be based on activity from calendar year 2006. For the Electricity

GENERAL FUND REVENUE ESTIMATES

Franchise Fees (Cont'd.)

Electricity, Gas, and Water Utility Services (Cont'd.)

Franchise Fee, modest growth of 2.8% is anticipated based on relatively stable rates for Electricity. In the Gas Franchise Fee area, high growth of 14.6% is estimated for 2006-2007 to reflect the impacts from the disastrous hurricane season, and other factors that caused natural gas costs to increase significantly during the short-term. In 2006-2007, receipts are estimated at \$13.7 million for Electrical Franchise Fees and \$4.7 million for Gas Franchise Fees. It should be noted, however, that actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes. The Revised Forecast included a \$70,000 reduction to Electricity Franchise Fees and a \$300,000 reduction to Gas Franchise Fees based on more current information.

Water Franchise Fees are expected to grow by approximately 2% to \$224,000 due to expected increases in rates and essentially flat consumption. As with the Gas Franchise Fees, collections in this area can vary based on the impact of weather conditions that may influence water usage.

Commercial Solid Waste

Commercial Solid Waste (CSW) Franchise Fee collections are anticipated to grow by 8.2% in 2005-2006, due to the combined impact of a slight (\$0.15/yd) fee increase and

an increase in business activity. In 2006-2007, CSW Franchise Fees are expected to grow by 4.3% to \$12.1 million as a result of an approved increase to the Franchise Fee portion of the Commercial Solid Waste (CSW) fee. This portion of the fee would increase by \$0.16 to \$3.65 per cubic yard, which would bring the CSW total fee (Franchise and AB939) to \$4.15 per cubic yard. This action is expected to generate \$500,000.

Cable Television

The 2006-2007 Adopted Budget estimate for Cable Television Franchise Fee revenue of \$5.0 million represents a conservative increase of approximately 2.0% from the 2005-2006 year-end estimate of \$4.9 million based upon a review of past and current collection patterns. Included in the 2006-2007 estimate is a \$130,000 upward adjustment to the Forecast revenue estimate to reflect more current information.

City-Generated Towing and Nitrogen Pipelines

Consistent with current year experience, City-Generated Towing Franchise Fee revenues are expected to total \$1.2 million in 2006-2007, which is consistent with the 2005-2006 year-end estimate.

Proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$58,000 in 2006-2007, which is in line with the annual collection pattern for this revenue.

GENERAL FUND REVENUE ESTIMATES

UTILITY TAX

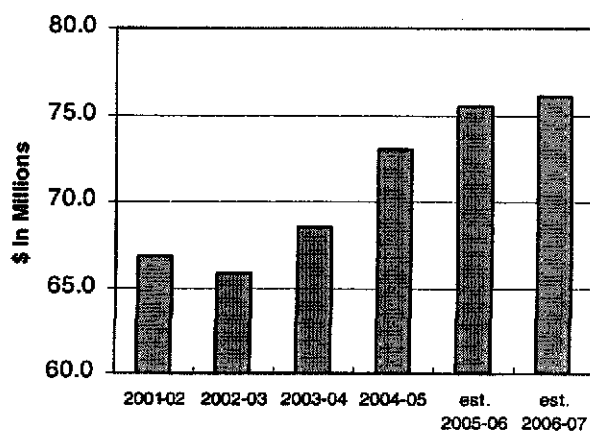
2004-2005 Actual	\$73,081,154
2005-2006 Adopted	\$67,844,000
2006-2007 Forecast*	\$76,098,000
2006-2007 Adopted	\$76,098,000
Percent of General Fund	8.1%
% Change from 2005-2006 Adopted	12.2%

* Revised downward by \$338,000 from the February Forecast, reflecting slightly lower projections for Electric Utility Taxes.

Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

Collection Trend:



Revenue Estimates:

Electricity Utility Tax

The 2005-2006 year-end estimate of \$33.6 million for Electricity Utility Taxes represents flat growth when compared to 2004-2005

actual collection levels. In 2006-2007, collections are estimated at \$34.3 million, reflecting anticipated growth of 2.2% over the 2005-2006 estimated collections due mainly to a 2.2% average price increase granted to Pacific Gas and Electric Company by the Public Utilities Commission that started in January 2006. Included in the 2006-2007 estimate is a \$338,000 downward adjustment to the Forecast revenue estimate to reflect lowered expectations for Electricity Utility Tax collections in 2005-2006.

Gas Utility Tax

It is anticipated that Gas Utility Taxes will total approximately \$10.7 million in 2005-2006, which is significantly above the Adopted Budget estimate of \$8.0 million. As mentioned above, the impacts from the disastrous hurricane season, limited storage capacity for natural gas, and other factors caused natural gas costs to increase significantly during the short-term. By late December 2005, nearly 30% of the gas production in the Gulf region was still shut down, causing a shortage of natural gas just as the peak winter season began. Even at the best of times, gas prices tend to rise in winter along with the rising demand for residential space heating. Although recently the extremely high natural gas prices have declined slightly, the spike in gas prices is not

GENERAL FUND REVENUE ESTIMATES

Utility Tax (Cont'd.)

Gas Utility Tax (Cont'd.)

expected to return to a more historically lower price range until sometime next year. To take out the affect of the spike in Gas Utility Tax revenue collections in 2005-2006, the Adopted Budget assumes a more historical 2.0% growth on 2004-2005 actual collections and then grows this normalized base amount by 4.0% to arrive at the 2006-2007 Adopted Budget estimate of \$9.7 million.

Water Utility Tax

The 2006-2007 estimate for Water Utility Taxes of \$7.3 million assumes growth of approximately 2.0% over the estimated 2005-2006 collection level of \$7.2 million. This growth expectation reflects the impact of an anticipated increase in wholesale water rates and essentially flat consumption rates. It should be noted that this category is also subject to fluctuations based on weather conditions.

Telephone Utility Tax

In the Telephone Utility Tax category, collections in 2005-2006 are expected to reach \$24.0 million, exceeding the prior year level by 4.4%. Performance in this category has been impacted by the way customers access telephone service. The trend has been for a slight decline in the revenues associated with landlines that are more than offset by the continued strong growth in cellular phone usage. In 2006-2007, growth of 3.1% is expected for a total of \$24.8 million. This collection level assumes a net 0.5% decrease in landlines and a 5.0% increase in cell phone usage.

It should be noted that this revenue source has proven to be particularly volatile as technology continues to evolve, and court challenges continue to change the regulatory and tax landscape. As a result, we will be monitoring developments carefully and return to Council with an update if future changes indicate an adjustment is warranted.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

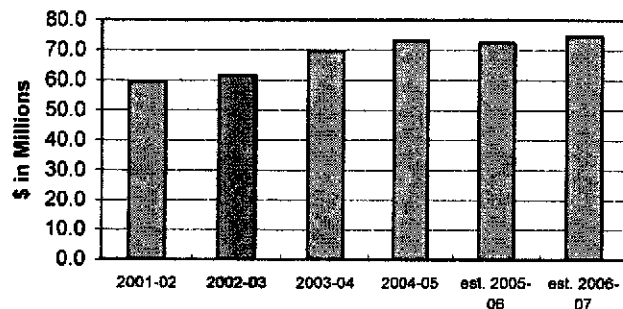
2004-2005 Actual	\$73,151,312
2005-2006 Adopted	\$72,269,830
2006-2007 Forecast*	\$64,541,135
2006-2007 Adopted	\$74,660,399
Percent of General Fund	8.0%
% Change from 2005-2006 Adopted	3.3%

* Increased by \$146,735 from the February Forecast to reflect a revised estimate related to the inclusion of the Off-Sale Alcohol Enforcement Fee and a slight decrease in the Cardroom Administration/Table Fee.

Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Fire Permits
- Building Permits
- Miscellaneous Other Licenses and Permits

Collection Trend:



Revenue Estimates:

Business Tax

In 2005-2006 General Business License Tax proceeds are expected to reach \$12.8 million, which is \$1.2 million below the Adopted Budget estimate of \$14.0 million, but 4.9% above the 2004-2005 collection level. Collections are not expected to meet the

Adopted Budget estimate due to lower than budgeted collections of one-time regulatory enforcement revenue and revenue from the Business Tax Amnesty Program. The Business Tax Amnesty Program was delayed and will extend into 2006-2007. For 2006-2007, revenues are expected to decline by 6.3% to \$12.0 million.

Cardroom Tax

Cardroom Tax collections are experiencing significant growth and are anticipated to reach \$9.5 million in 2006-2007. Per previous City Council direction, this revenue was not included in the General Fund Forecast as it was directed to be treated as a one-time revenue source for budgeting purposes. Per Council direction included in the 2006-2007 Mayor's March Budget Message, this has been changed in this budget and the \$9.5 million proceeds from this tax are included in the Adopted Budget as an ongoing revenue source.

Disposal Facility Tax

Disposal Facility Tax (DFT) revenue collections in 2005-2006 are expected to fall below the Adopted Budget estimate (\$14.3

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits (Cont'd.)

Disposal Facility Tax (Cont'd.)

million) by approximately \$1.3 million, declining to \$13.0 million. This reduction is entirely due to the settlement of the dispute over the removal of the Alternate Daily Cover (ADC) exemption reported in MFRs and last year's Forecast that resulted in the City agreeing to reinstate the ADC exemption and allow a credit to the haulers for amounts that had been paid to the City due to the removal of the exemption. Without this credit, 2005-2006 collections would have met, or possibly slightly exceeded the Adopted Budget estimate. Taking this one-time adjustment into account, DFT revenue is expected to reach \$14.7 million in 2006-2007, which represents a slight increase of 2.8% over the 2005-2006 Adopted Budget estimate of \$14.3 million.

Fire Permits

The 2006-2007 Adopted Budget revenue estimate of \$7.8 million represents 3.5% growth from the 2005-2006 year-end estimate.

The 2006-2007 Adopted Budget incorporates a \$746,000 increase to this revenue category to align projected revenues with projected costs (\$302,000) and to support program additions (\$444,000) to better meet customer's needs. This increase helps fund the addition of two Associate Engineer positions to address declining performance levels in development permitting and inspection activities and help comply with mandates as described in the Getting Families Back to Work III (GFBTW III) Study. Also included are the reallocation of a portion of the funding for 17 existing administrative positions (1.42 fulltime equivalents) to better reflect their administrative contribution to Fee Program services, and the addition of one Hazardous Materials Inspector to address

storage tank inspection backlogs and eliminate additional overtime. These changes should improve the alignment of staffing and activity levels for the development and non-development sectors.

Building Permits

The 2006-2007 Adopted Budget revenue estimate of \$24.3 million represents a slight reduction from the 2005-2006 year-end estimate of \$24.6 million and the Forecast estimate of \$24.7 million. This is due to a combination of approved fee increases (average of 7%) offset by the Program's implementation of a new fee structure for commercial and industrial projects. The new structure, based on the time it takes to deliver service instead of on valuation, is anticipated to generate approximately 8% less revenue. Commercial/Industrial is the last sector to be converted (In 2003-2004, the Building program converted to this new methodology across all sectors in residential). In order to remain 100% cost recovery, \$1.6 million will be used from the Building's earmarked fee reserve.

Miscellaneous Other Licenses and Permits

The 2006-2007 Adopted Budget includes \$6.4 million for a variety of other Licenses and Permits. This figure includes approval for a total increase of \$285,000 that represents: a \$180,000 increase from the Forecast base in Multiple Housing Permit fee revenue, representing an approved 7% increase in fees to provide 100% cost recovery and meet the program goal to inspect every building in the permit inventory at least once every six years; a \$101,000 increase to the Police Department's Fees and Charges to maintain full cost recovery; and several other minor adjustments.

GENERAL FUND REVENUE ESTIMATES

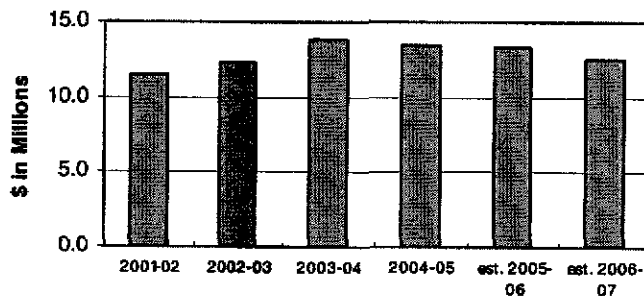
FINES, FORFEITURES, AND PENALTIES

2004-2005 Actual	\$13,369,693
2005-2006 Adopted	\$12,695,000
2006-2007 Forecast	\$12,355,000
2006-2007 Adopted	\$12,536,567
Percent of General Fund	1.3%
% Change from 2005-2006 Adopted	(1.2%)

Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Code Fines
- Business Tax and Cardroom Penalties
- Administrative Citation Program
- Other Fines and Penalties

Collection Trend:



Revenue Estimates:

For 2006-2007, overall collections in this category are expected to decrease 5.6% from 2005-2006 year-end projections. Following is a discussion of the major components of this category.

Vehicle Code and Municipal Court Fines

In 2006-2007, Vehicle Code Fines are estimated at \$2.6 million and Municipal Court

Fines are expected to reach \$750,000. These collection levels are slightly lower than the 2005-2006 year-end estimates of \$2.9 million for Vehicle Code Fines and \$850,000 for Municipal Court Fines, but consistent with historical collection patterns.

Parking Fines

In 2005-2006, anticipated Parking Fines collections of \$7.6 million are expected to be above the Adopted Budget estimate of \$7.0 million, and slightly (1.5%) ahead of 2004-2005 actual collections.

In response to the Mayor's Budget Message directing staff to consider increasing the parking penalty for commercial vehicles parking in a residential neighborhood and to seek ways to reduce the number of repeat responses to vehicle abatement service requests, increases in certain citations were approved that are anticipated to provide \$73,000 in additional revenue. Increases were approved in three areas: Storage on Street; Commercial vehicle in residential area; and Parked at bus stop.

Also, the approved addition of two Parking and Traffic Control Officers to the Street Sweeping Enforcement Program is expected to result in a slight increase in parking citation revenue (\$109,000).

GENERAL FUND REVENUE ESTIMATES

Fines, Forfeitures and Penalties (Cont'd.)

Parking Fines (Cont'd.)

With these adjustments, parking revenues are expected to total \$7.7 million in 2006-2007.

Business Tax and Cardroom Penalties

As described above, a Business Tax Amnesty Program is expected to begin near the end of 2005-2006 and bridge over into the beginning of 2006-2007. Due to the expected impact of the Amnesty Program 2006-2007 Business Tax Penalties collections are anticipated to decrease to \$500,000 from a 2005-2006 year-end estimate of \$800,000.

The scheduled collection of the long-standing delinquent Garden City penalty payment (approximately \$1.8 million) is once again not assumed in the 2006-2007 Adopted Budget because it is still not known when or if these

payments will be made due to Garden City's continued involvement in bankruptcy proceedings.

Administrative Citation Program

In 2006-2007, the Administrative Citation Program is projected to generate approximately \$600,000, which is an approximately 4.3% increase over the 2005-2006 Adopted Budget estimate, but down \$150,000 from the 2005-2006 year-end estimate.

Other Fines and Penalties

The Other Penalties category consists primarily of collections associated with the Code Enforcement Hearings Program. It is anticipated that collections will total \$70,000 in 2005-2006, consistent with actual collections in 2004-2005. No growth is expected for 2006-2007.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

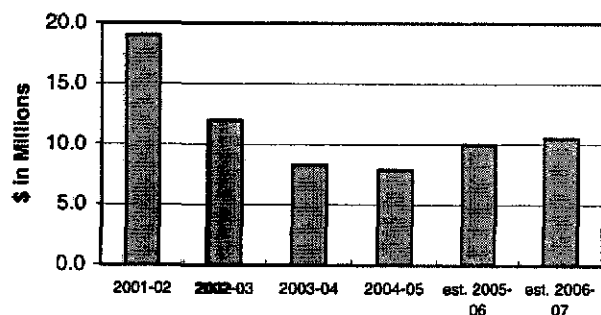
2004-2005 Actual	\$7,946,442
2005-2006 Adopted	\$6,217,454
2006-2007 Forecast*	\$10,483,734
2006-2007 Adopted	\$10,541,869
Percent of General Fund	1.1%
% Change from 2005-2006 Adopted	69.6%

* Revised downward by \$4,920 from the February Forecast to reflect a revised estimate for earnings on Sr. Staff Home Loans.

Major Categories:

- General Fund Interest Earnings
- Special Funds Interest Earnings
- Miscellaneous Collections

Collection Trend:



Revenue Estimates:

The largest source of revenue in the Use of Money and Property category is earnings on investments of General Fund and several other funds' cash.

General Fund Interest Earnings

Based upon a review of the Monthly Investment Report data and reinvestment rates, a 2006-2007 average interest yield of 3.5%, applied to an estimated average cash balance of \$190.0 million, was assumed in a total General Fund interest earnings

projection of \$6.7 million. This amount is well above the 2005-2006 Adopted Budget estimate of \$3.7 million, and slightly above the current year-end estimate of \$6.0 million, but down from the 2001-2002 peak year collection level of \$11.9 million. The higher collections projected for 2006-2007 reflects an increase in interest rate earnings, as Federal Reserve Board policies push up interest rates, applied to a higher average cash balance assumption (\$190.0 million versus \$177.0 million).

Special Funds Interest Earnings

The interest income estimate from Special and Capital Funds in 2006-2007, totaling approximately \$2.8 million, is projected to be substantially higher than the 2005-2006 Adopted Budget estimate of \$1.6 million, but comparable to the 2005-2006 year-end estimate of \$2.9 million. Though no overall growth over the estimated 2005-2006 year-end collections is anticipated, adjustments to the individual estimates were made to reflect the activity anticipated in 2006-2007.

GENERAL FUND REVENUE ESTIMATES

Revenue from Use of Money and Property (Cont'd.)

Miscellaneous Collections

Based on 2005-2006 projections, it is anticipated that approximately \$1.0 million will be generated in 2006-2007 from Property Tax interest, Subrogation Recovery, property rentals, and interest on various executive

loans. This includes the impact of approval to add General Fund funding for a 0.5 Real Estate Agent position to help support the marketing, negotiation, and administration functions of all telecommunication-related efforts that will generate additional General Fund revenue. It is expected that this \$58,000 funding shift will be fully covered by the additional revenue generated.

REVENUE FROM LOCAL AGENCIES

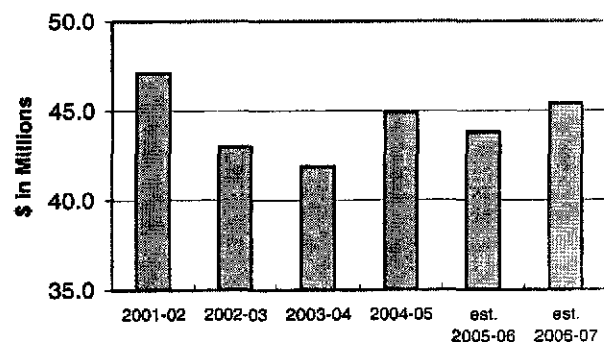
2004-2005 Actual	\$45,056,020
2005-2006 Adopted	\$41,928,346
2006-2007 Forecast*	\$45,095,308
2006-2007 Adopted	\$45,422,621
Percent of General Fund	4.9%
% Change from 2005-2006 Adopted	8.3%

* Increased by \$716,990 from the February Forecast to reflect updated estimates for reimbursements from the Redevelopment Agency.

Major Categories:

- Reimbursement from the Redevelopment Agency (Agency) for City Staff/Overhead
- Agency Payment for Convention Center Debt Service and City Capital Expenditures
- Enterprise Fund In-Lieu Charges
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

Collection Trend:



Revenue Estimates:

Redevelopment Agency

The Redevelopment Agency reimbursements included in the February Forecast Budget (\$14.5 million) were based upon estimated

GENERAL FUND REVENUE ESTIMATES

Revenue From Local Agencies (Cont'd.)

Redevelopment Agency (Cont'd.)

2006-2007 costs for City Redevelopment Agency staff, Agency overhead costs based on the 2005-2006 rates, and the projected 2006-2007 cost of the current complement of City support services provided to the Agency. This base figure has been adjusted upward by approximately \$717,000 to reflect updated estimates for these reimbursements.

As part of the Adopted Budget, the revenue from the Redevelopment Agency is expected to increase by \$205,000 to a total reimbursement level of \$15.4 million. The following adjustments were approved: an increase of \$242,000 to add one Code Enforcement Supervisor and one Senior Office Specialist to provide resources to implement the "Blight Busters" Program designed to further reduce blight conditions within the Strong Neighborhood areas; an increase of \$62,000 to reflect partial RDA funding of a Senior Analyst that was approved to be moved from the Office of Cultural Affairs to the Office of Economic Development to support large, signature outdoor events (Grand Prix, Tour of California, etc.); and an increase of \$10,000 to reflect RDA reimbursement for sidewalk café permit fees. These increases would be offset by an approved reduction of one analyst position in the Office of Economic Development (\$37,000), an approved reduction to the consulting and special projects budget in the Office of Economic Development (\$10,000), and reduced reimbursements for support for the Mayor and City Council (\$63,000).

Also included is the continuation of Redevelopment Agency reimbursement for the Convention Center Lease payment of

\$13.7 million, which reflects a pre-determined debt payment schedule amount, and reimbursement for City capital expenditures, which enables the City to fund the San José BEST Program, presumed to be continued at \$3.0 million. The San José BEST Program provides funding for schools, community based organizations, and other programs aimed at deterring gang and drug activities and providing employment opportunities for youth.

Enterprise Fund In-Lieu Charges

The adopted estimate for Revenue from Local Agencies assumes total Enterprise Fund In-Lieu Charges of \$4.2 million. These payments are received from the Municipal Water System and Water Pollution Control Plant enterprise funds in lieu of franchise fees and other various taxes and fees, which the City would have received if these entities were privately owned. The approved amount reflects a reduction to the fee for the Municipal Water System to bring the fee in compliance with new ordinance changes restricting the fee amounts that can be paid.

Central Fire District and Paramedic Program Payments

The City receives payments from the Central Fire District for emergency services provided to district residents by the San José Fire Department. For 2005-2006, Central Fire District payments are expected to end the year at \$5.6 million, exceeding the budgeted amount of \$5.0 million, primarily due to one-time receipts of a true-up payment related to the prior year. After taking out the affect of the one-time receipts, 2006-2007 collections are projected to be \$5.6 million based on 8.0% growth over the adjusted 2005-2006 actual receipts, which closely tracks to the anticipated increase in Secured Property Tax revenues.

GENERAL FUND REVENUE ESTIMATES

Revenue From Local Agencies (Cont'd.)

Central Fire District and Paramedic Program Payments (Cont'd.)

In 2006-2007, estimated payments from the County of \$1.6 million for the Paramedic Program are expected to remain flat compared to the 2005-2006 estimated collection level of \$1.6 million. The existing agreement with American Medical Response (AMR), which is coterminous with AMR's agreement with the County of Santa Clara, is set to expire at the end of 2005-2006. Flat

growth is assumed for 2006-2007, pending the outcome of new contract negotiations.

Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and Senior Nutrition Programs. For 2006-2007, the base level of revenue was generally set at the 2005-2006 estimated level for ongoing programs. This category also includes \$122,500 that was rebudgeted from 2005-2006 for Packard grant for Smart Start Sites.

REVENUE FROM THE STATE OF CALIFORNIA

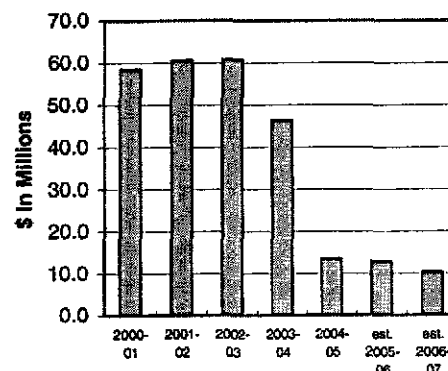
2004-2005 Actual	\$13,467,122
2005-2006 Adopted	\$10,892,192
2006-2007 Forecast*	\$9,268,710
2006-2007 Adopted	\$10,274,423
Percent of General Fund	1.1%
% Change from 2005-2006 Adopted	(5.7%)

* Increased by \$200,000 from the February Forecast to reflect updated estimates for Off-Highway Vehicle Registration In-Lieu Tax.

Major Categories:

- Motor Vehicle and Airplane In-Lieu Taxes
- State Grants

Collection Trend:



GENERAL FUND REVENUE ESTIMATES

Revenue From the State of California (Cont'd.)

Revenue Estimates:

Motor Vehicle and Airplane In-Lieu Taxes

A decline of 15.0% in Motor Vehicle In-Lieu (VLF) fees is assumed for 2005-2006. The majority of the decline is due to the impact of the VLF "Swap" mentioned in the Property Tax Category above. As explained earlier in this section, the VLF "Swap" involved the permanent conversion of VLF backfill funds to Property Tax as part of an approved State budget balancing strategy, reducing this revenue category from what had once been a \$50 million revenue source to a \$5 million revenue source. The VLF "Swap" was implemented in the middle of the third month of 2004-2005, resulting in 2.5 months of backfill being collected in that year. Taking this amount into account, revenue collections in this category are projected to be relatively flat in 2005-2006. Slight growth of 2.0% is projected for 2006-2007, bringing revenues to \$5.2 million.

Based on information from the county, the 2005-2006 year-end estimate for Airplane In-Lieu fees of \$1.7 million is 40.0% lower than the amount collected in 2004-2005, but substantially higher than the 2005-2006 Adopted Budget estimate of \$900,000. Information from the county indicates that there were large airplane purchases in 2004-2005 that substantially increased the fees in this category, and significant depreciation in the fee amounts can be expected. Based on an analysis of collections over time, 2006-2007 receipts are estimated at \$1.0 million.

Included in the estimates for this category is a \$200,000 upward adjustment to the February Forecast revenue estimate for Off-Highway

Vehicle registration Fees to reflect more current information.

State Grants

Public Library Fund (PLF) SB 358 grant funds are estimated to total \$344,000 in 2005-2006, reflecting the anticipated level of funding from the State. Based on past State budget balancing actions and the State's current fiscal circumstances, it is anticipated that 2006-2007 PLF funding will decrease to \$316,000.

Abandoned Vehicle fee revenue of \$710,000 is anticipated in 2006-2007, reflecting flat growth from the current year-end estimate. Also, included in this Adopted Budget is anticipated revenue of \$1.7 million to fund continuation of the San José LEARNS program.

In 2006-2007, \$241,000 is expected from the State for the replacement of several pieces of Fire apparatus.

The following grant activities were also approved as part of the 2006-2007 Adopted Budget: a \$128,000 Senior Companion Grant was transferred from the Revenue from Federal Government category to more appropriately classify this State Grant; \$110,000 was rebudgeted from 2005-2006 for the OTS 2004-2007 DUI/Seat Belt Safety Program Grant and a \$115,000 increase was approved to reflect the third year allocation of this three year grant; \$245,000 for the OTS 2005-2006 San José Regional Street Racing Task Force Grant was rebudgeted from 2005-2006 and a \$107,000 increase was approved to reflect the second year of this two year grant; and an increase of \$59,000 was approved to recognize revenue from the Bureau of Narcotics Enforcement Grant to support the South Bay Metro Task Force.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM THE FEDERAL GOVERNMENT

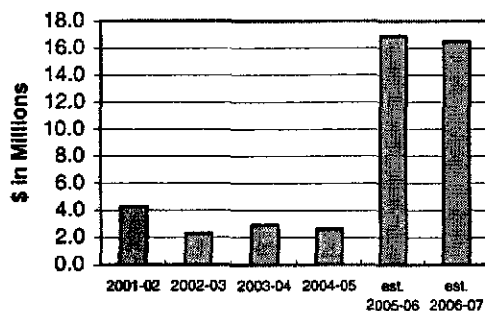
2004-2005 Actual	\$2,592,764
2005-2006 Adopted	\$9,854,456
2006-2007 Forecast*	\$1,533,307
2006-2007 Adopted	\$16,469,051
Percent of General Fund	1.8%
% Change from 2005-2006 Adopted	67.1%

* Increased by \$150,000 from the February Forecast to reflect higher grant reimbursement related to the California 21st Century Community Learning Centers Program

Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

Collection Trend:



Revenue Estimates:

The revenue in this category is received from various grant programs. The 2006-2007 Adopted Budget only includes those grant proceeds known to be obligated for next year. Among them are the Urban Area Security Initiative Grant (\$9.5 million); COPS

Interoperable Communications Grant (\$4.7 million); California 21st Century Community Learning Centers Program Grants (\$1.3 million); Juvenile Justice and Delinquency Prevention Grant (\$240,000); Weed and Seed Washington Grant (\$225,000); Human Trafficking Prevention Grant (\$147,000); Senior Companion Grant (\$128,000); Smart Start Earmark Grant (\$100,000); the Retired Seniors Volunteer Program Grant (\$92,000); East San José Weed and Seed Grant (\$53,000); Smart Start Neighborhood Centers Grant (\$38,000); and an Emergency Management Performance Grant (\$30,000). This category also includes a \$128,000 reduction to reflect a reclassification of the Senior Companion Grant from the Revenue from Federal Government category to the Revenue from the State of California category to more appropriately classify this State Grant.

Included in the adopted estimate for this category is a \$150,000 upward adjustment to the February Forecast revenue estimate for higher grant reimbursements related to the California 21st Century Community Learning Centers Program.

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

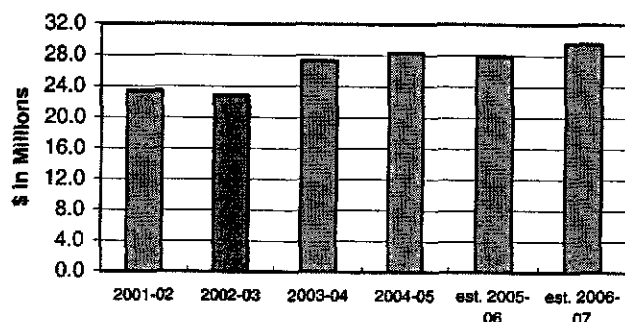
2004-2005 Actual	\$28,093,767
2005-2006 Adopted	\$27,366,083
2006-2007 Forecast*	\$27,780,877
2006-2007 Adopted	\$29,455,625
Percent of General Fund	3.2%
% Change from 2005-2006 Adopted	7.6%

* Increased by \$307,885 from the February Forecast to reflect changes in anticipated Transportation related fees and charges revenue and General Plan Update Fees.

Major Categories:

- Police Fees
- Public Works Fees
- Transportation Fees
- Library Fees
- Planning Fees
- Parks, Recreation and Neighborhood Services Fees
- Miscellaneous Departmental Fees

Collection Trend:



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2006-2007 Adopted Budget, estimated departmental charges for services revenue is up 7.6% from the 2005-

2006 Adopted Budget level and 6.0% higher (\$1.7 million) than the Revised Forecast level.

The increase in the Adopted Budget in this category is mainly the result of adjustments to various fee programs, including adopted increases to various fees designed to address projected activity levels and service level demands in 2006-2007.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs was provided in the 2006-2007 Fees and Charges document that was released under separate cover.

Police Fees

The Adopted Budget revenue estimate for the Police Department (\$1.4 million) represents a 4.2% (\$58,000) increase from the Revised Forecast level. This positive variance results from fee revisions throughout the fee program.

Public Works Fees

In 2006-2007, Public Works fees are expected to generate \$7.9 million, which is 11.2% higher than the 2005-2006 year-end estimate. The Adopted Budget estimate is approximately \$625,000 higher than the

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Public Works Fees (Cont'd.)

Revised Forecast level for Public Works departmental fees, with an approved 7% overall increase to fees, as well as an additional 8.47% increase to fees assessed to Utility Companies. These increases are required in order to maintain a 100% cost recovery status for the Development Fee Program, as well as improve upon current service levels. Despite these fee increases, a \$202,000 shortfall is anticipated when comparing projected revenues and expenditures. To bridge the remaining gap, the Public Works Fee Program Earmarked Reserve will be reduced. After the reduction to the reserve, \$1.0 million will remain in the reserve to address future shortfalls.

Transportation Fees

Transportation Departmental charges are expected to generate approximately \$983,000 in 2006-2007, which is generally consistent with the 2005-2006 year-end estimate. This collection level is approximately \$32,000 higher than the Revised Forecast for Transportation fees. The anticipated increase reflects approved 2006-2007 fee changes to maintain cost-recovery levels in 2006-2007. Also included in the 2006-2007 estimate is a \$108,000 increase to the February Forecast based on activity level estimates.

Library Fees

Library Department fees and fines for 2006-2007 are estimated at \$1.1 million, which is relatively flat when compared to the expected 2005-2006 year-end level. There are no changes in Library fees for 2006-2007.

Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications. For 2006-2007, the Planning fee program revenue estimate (\$6.2 million) reflects an anticipated leveling of activity combined with fee increases averaging 7% (\$405,000), and use of the Planning Fee Reserve (\$301,000) to keep the program at 100% cost-recovery. Included in the 2006-2007 Adopted Budget is a \$10,000 reduction to Planning Fees to reflect the amount of Sidewalk Café Permit fees that are expected to be reimbursed by the Redevelopment Agency.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are expected to reach \$8.0 million in 2006-2007 based on a net combination of current activity projections, revenue changes associated with PRNS departmental operations, and previously approved fee increases in conformance with City Council direction to match revenues with program costs in order to maintain cost recovery. For 2006-2007, the following fee increases were approved: a \$20 increase in the adoption fee for puppies and kittens (\$20,000); various fees related to parks (\$16,750) and facility rentals (\$50,250); an increase in fee activity revenue partially due to several new parks and recreation facilities that will be coming on-line (\$77,500) offset by a \$34,750 reduction for the Young people's Theater; and other miscellaneous fee increases (\$7,500).

Miscellaneous Departmental Fees

Collections of \$3.8 million are anticipated in 2006-2007 from a variety of miscellaneous fees and charges, including \$3.1 million from

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Miscellaneous Departmental Fees (Cont'd.)

the Solid Waste Enforcement Fee (SWEF) Program. A \$227,000 increase in the SWEF was approved to bring expected revenues in line with anticipated costs and implement funding shifts to increase efficiencies in the Code Enforcement Division (\$211,000) and reflect the restoration of the Abandoned Shopping Cart Ordinance and Prevention Program (\$16,000). Also included in this

category is an approved increase to implement a recovery fee for collection agency activities (\$200,000).

Additional discussion related to these changes may be found in the Economic and Neighborhood Development, and Other Strategic Support CSA sections of this document. Also included in this category is a \$200,000 increase to the February Forecast base to reflect the estimate for General Plan Update Fees.

OTHER REVENUE

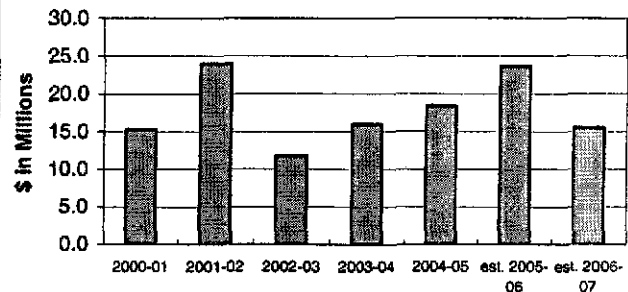
2004-2005 Actual	\$18,379,864
2005-2006 Adopted	\$19,562,861
2006-2007 Forecast*	\$10,922,291
2006-2007 Adopted	\$15,522,457
Percent of General Fund	1.7%
% Change from 2005-2006 Adopted	(20.7%)

* Decreased by \$129,511 from the February Forecast to reflect a change in the Investment Cost Reimbursements.

Major Categories:

- HP Pavilion at San José Revenues
- Investment Program Reimbursement
- Sale of Surplus Property
- Sidewalk Repair Activities

Collection Trend:



GENERAL FUND REVENUE ESTIMATES

Other Revenue (Cont'd.)

Revenue Estimates:

HP Pavilion at San José Revenues

The 2006-2007 estimate of \$3.6 million includes payments for HP Pavilion at San José parking and rentals, naming rights, and estimated collections for suite revenues. This amount is approximately \$700,000 below the level that would have been anticipated had the National Hockey League (NHL) not experienced a lockout that resulted in the cancellation of the entire hockey season in 2004-2005. Under the agreement with San José Arena Management (SJAM), arena payments are calculated, in part, based on hockey revenue that uses the past two years as the basis for the calculation. As a result, the loss of revenue resulting from the cancellation of the 2004-2005 season impacts collections in both 2005-2006 and 2006-2007.

Investment Program Reimbursement

The 2006-2007 revenue estimate for this category is \$2.0 million based on the estimated costs of this program that will be reimbursed from proceeds on investment earnings. Included in this estimate is \$120,000 to add one Financial Analyst Position to support investment activities. Also included in this estimate is a \$130,000 downward adjustment to the February Forecast base to bring revenue estimates in line with estimated costs.

Sale of Surplus Property

The Adopted Budget includes revenue in the amount of \$100,000 for the recovery of the costs associated with the management and sale of General Fund surplus property.

Minor adjustments (\$2,000) were also approved for the 2006-2007 fee revenues related to the sale of street name signs, new subdivision traffic control signs, and new subdivision pavement markings administered by the Transportation Department, bringing those categories into alignment with current projections.

Sidewalk Repair Activities

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2006-2007 revenue estimate for this category is \$400,000.

Other Miscellaneous Revenue

In 2006-2007, FMC Land Lease revenue of \$4.7 million from the Airport is included in the Adopted Budget to reflect an amount sufficient to cover the debt service payments made from the General Fund for the portion of the FMC property dedicated to Airport uses. Also included in the Adopted Budget are a \$70,000 increase to Banking services revenue to offset higher investment costs anticipated in 2006-2007; a rebudget for the Coyote Valley Specific Plan (\$1.2 million); and a rebudget for the Evergreen Strategy (\$1.4 million).

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

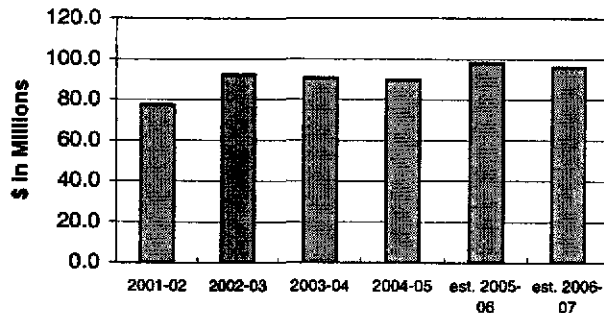
2004-2005 Actual	\$89,598,689
2005-2006 Adopted	\$95,321,831
2006-2007 Forecast*	\$81,915,474
2006-2007 Adopted	\$96,008,271
Percent of General Fund	10.3%
% Change from 2005-2006 Adopted	0.7%

* Decreased by \$223,965 from the February Forecast to reflect changes in overhead estimates, and amounts transferred from other funds.

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

Collection Trend:



Revenue Estimates:

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or as simple transfers.

In total, Transfers and Reimbursements are anticipated to generate approximately \$96.0 million in 2006-2007. This amount is essentially flat when compared to the 2005-2006 Modified Budget level. Included in the

2006-2007 Forecast estimate is a net \$224,000 downward adjustment from the February Forecast reflecting changes in overhead estimates primarily as a result of changes in labor costs and amounts transferred from other funds. The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2006-2007.

Overhead Reimbursements

The 2006-2007 Adopted Budget includes an upward net change of \$313,000 to the Revised Forecast estimate for overhead reimbursements primarily as a result of changes in labor costs and adjustments adding, reducing, and/or transferring position funding within various special funds. These changes result in a 2006-2007 overhead reimbursement amount of approximately \$28.8 million.

As noted above, overhead rate estimates have been developed by applying current year overhead rates to 2006-2007 labor costs, as the Finance Department has been unable to complete the release of 2006-2007 updated overhead rates in time for inclusion in this document. Any changes that result from the updated rates, when they are finally received, will be reported to the Council.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Overhead Reimbursements (Cont'd.)

The approved changes from the revised Forecast Base for 2006-2007 involve the following funds:

- **Airport Operations Fund.** A net decrease of \$26,000 was approved to reflect Airport operating efficiencies as part of an overall Airport budget balancing strategy to match 2006-2007 costs with anticipated revenue. Additional descriptions related to these changes may be found in the Transportation and Aviation Services City Service Area section of this document.
- **Convention and Cultural Affairs Fund.** A decrease of \$9,000 in overhead reimbursements was approved to reflect the elimination of maintenance by City staff of Convention Facilities (fountains and irrigation).
- **Community Development Block Grant (CDBG) Fund.** An increase of \$27,000 in overhead reimbursements was approved to reflect the addition of 1.2 management positions to administer the CDBG program, which is being transferred from the Parks, Recreation, and Neighborhood Services Department to the Housing Department. Additional descriptions related to this change may be found in the Neighborhood Services City Service Area section of this document.
- **Integrated Waste Management Fund.** An increase of \$109,000 in overhead reimbursements was approved to reflect the following changes: An increase in staffing costs for

administration of the Construction and Demolition Diversion Deposit Program (\$20,000); an increase in staffing costs to improve service delivery and to improve contractor financial oversight in all Integrated Waste Management programs (\$36,000); a commitment of resources to the "Go Green" Program per the Mayor's March Budget Message (\$18,000); an increase in staffing costs for Information technology support for the C-UBS Phase I project (\$10,000); and an increase to reflect a shift in street sweeping staffing to provide improved inspection and coordination of street sweeping activities throughout the City and expanded street sweeping signage and enforcement (\$25,000). Additional descriptions related to this change may be found in the Environmental and Utility Services CSA section of this document.

- **Low and Moderate Income Housing Fund.** A net increase of \$4,000 in overhead reimbursements was approved to reflect the following changes: an increase in staffing costs to provide resources for the loan compliance function managing a growing loan portfolio (\$7,000); and a decrease to reflect the transfer of administration of the Community Development Block Grant from the Parks, Recreation, and Neighborhood Services Department to the Housing Department (\$3,000). Additional descriptions related to this change may be found in the Neighborhood Services City Service Area section of this document.
- **Maintenance District Funds.** An increase of \$22,000 in overhead reimbursements was approved to reflect the shift of a position to the

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Overhead Reimbursements (Cont'd.)

Maintenance District Program for eligible services. Additional descriptions related to this change may be found in the Transportation and Aviation Services City Service Area section of this document.

- **San José/Santa Clara Treatment Plant Operating Fund.** An increase of \$83,000 in overhead reimbursements was approved to reflect the following changes: expansion of the surveillance and trunkline monitoring programs in the City's Pretreatment Program (\$9,000); conversion of an over-strength Senior environmental Inspector position in the Source Control Program to permanent status (\$13,000); an increase in staffing costs to manage the expanded pollution prevention programs (\$21,000); increased staffing costs to establish, manage, and oversee the full implementation of the San José/Santa Clara Water Pollution Control Technical Document Management Program (\$29,000); and an increase in staffing costs to support a new Computerized Maintenance Management System (\$12,000). Additional descriptions regarding the change may be found in the Environmental and Utility Services CSA sections of this document.
- **Sewer Service and Use Charge Fund.** A net increase of \$66,000 in overhead reimbursements was approved to reflect the following changes: an increase in staffing costs to implement a Fats, Oils, and Grease (FOG) Control Program (\$61,000); and an increase in staffing costs for Information technology

support for the C-UBS Phase I project (\$5,000). Additional descriptions related to these changes may be found in the Environmental and Utility Services CSA sections of this document.

- **Storm Sewer Operating Fund.** A net increase of \$20,000 in overhead reimbursements was approved to reflect the following changes: an increase in staffing costs for Information technology support for the C-UBS Phase I project (\$2,000); a net increase to reflect a shift in street sweeping staffing to provide improved inspection and coordination of street sweeping activities throughout the City and expanded street sweeping signage and enforcement (\$1,000); and an increase in staffing costs to address the increased demands of implementing storm water permit requirements (\$17,000). Additional descriptions regarding the changes may be found in the Transportation and Aviation and the Environmental and Utility Services CSA sections of this document.
- **Water Utility Fund.** An increase of \$2,000 in overhead reimbursements was approved to reflect an increase in staffing costs for Information technology support for the C-UBS Phase I project. Additional descriptions regarding the change may be found in the Environmental and Utility Services CSA sections of this document.
- **Workforce Investment Act Fund.** A net increase of \$14,000 in overhead reimbursements was approved to provide continued augmentation of Workforce Development activities and services. Additional descriptions regarding the changes may be found in the Community and Economic Development CSA sections of this document.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Transfers

The 2006-2007 estimate of \$49.6 million reflects the following approved changes:

- A transfer of \$10.4 million from the Emergency Communication System Support Fee Fund as part of the extension of the sunset for this fee from December 31, 2006 to June 30, 2009.
- A transfer of \$2.7 million from the Developer's In-Lieu Fund to reflect reimbursement for interest earned prior to 1989 and reimbursement for costs of administering the In-Lieu Fee Program from 1989 to 2004.
- A one-time transfer of \$700,000 from the Stores Fund Ending Fund Balance.
- A \$2,000 decrease in transfers from the Water Utility Fund for adjustments to the Municipal Water Rate of Return, offsetting overhead adjustments noted above. The impact of these two actions on the Water Utility Fund is net zero.

- A transfer of \$200,000 from the Developer's In-Lieu Fund to reflect reimbursement for costs of administering the In-Lieu Fee Program in 2006-2007.

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2006-2007, collections from this source are projected at \$17.0 million, reflecting a slight decline from the 2005-2006 year-end estimate. This collection level assumes that the recent large increases in gas prices will result in a slight decline in consumption levels.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$129,000 and \$450,000, respectively.

GENERAL FUND REVENUE ESTIMATES

FUND BALANCE

Ending Fund Balance Reserve	\$40,323,100
Unexpended/Rebudgeted Earmarked Reserves	\$78,407,104
Expenditure Rebudgets	32,028,294
Unexpended/Rebudgeted Contingency Reserve	23,000,000
Liquidation of Prior Year Encumbrances	1,138,373
Fund Balance Subtotal:	\$174,896,871
Reserve for Encumbrances	22,517,005
Fund Balance Total:	\$197,413,876

Estimates for both the unrestricted and restricted (reserves for encumbrances) portions of the 2005-2006 Ending Fund Balance/2006-2007 Beginning Fund Balance, totaling \$197.4 million, are included as part of the 2006-2007 Adopted Operating Budget. The estimate for the encumbrance reserve is set at the 2004-2005 actual level (\$22,517,005). The Adopted Budget includes a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted portion of the fund balance has been set at \$174.9 million, representing a \$117.7 million total increase from the February Forecast level of \$57.2 million. When the Forecast was developed, the fund balance projection was for a total of \$32.0 million achieved through a combination of additional revenue and expenditure savings; an unexpended Contingency Reserve estimate of \$24.2 million; and \$1.0 million from liquidation of prior year carryover encumbrances.

Since the release of the Forecast, however, changes of \$117.7 million were approved to reflect the following:

- Approval to rebudget \$56.6 million of Unexpended Earmarked Reserves and

to use \$21.8 million of Unexpended Earmarked Reserves. The \$21.8 million use of reserves includes: the liquidation of the 2006-2007 Future Deficit Reserve to be used as part of the City's General Fund balancing strategy (\$18.4 million); the use of the E-Government Applications Reserve (\$1.3 million) to be combined with additional one-time funds to create a \$3.5 million Technology Reserve; and the use of portions of the Planning, Building, and Public Works Fee Reserves (\$2.1 million);

- Expenditure Rebudgets of \$32.0 million, the majority of which represent Capital and City-Wide projects that were not completed in 2005-2006;
- An increase in the expected expenditure savings or revenue surpluses from 2005-2006 (\$8.3 million);
- A decrease to the unexpended Contingency Reserve estimate of \$1.2 million, reflecting a downward adjustment of \$2.2 million based

GENERAL FUND REVENUE ESTIMATES

Fund Balance (Cont'd.)

on the actual Contingency Reserve level and a rebudget of \$1.0 million; and

- An increase to the liquidation of prior year encumbrances of \$138,000, which represents additional savings from the City Attorney's Office.

When analyzing the fund balance generated from excess revenue and expenditure savings, it is important to identify the one-time and ongoing components. For example, in 2005-2006, Property Tax revenues are expected to exceed the budgeted amount, which will create higher than normal amounts of ending fund balance monies. This has resulted due to two primary factors: (1) The VLF "Swap" true-up from 2004-2005 provided unexpected one-time revenue, and (2) better than

expected property tax roll growth provided ongoing revenue.

The ongoing Property Tax roll growth was accounted for as part of the base from which the next year's revenue estimate was developed. The VLF "Swap" true-up was money that provided a one-time catch-up in the current year only. Expenditure savings this fiscal year have also exceeded normal expectations as a result of ongoing control measures.

Given the City's conservative budgeting practices, it is assumed that there will be some level of expenditure savings and excess revenue each year that will be available for the following year's budget. Our current Five-Year Forecast presumes a more normal expectation from these sources of approximately \$18.0 million, or approximately 2.0% of the General Fund annually.